



European Fiscal Compact in Action: Can Independent Fiscal Institutions Deliver Effective Oversight?

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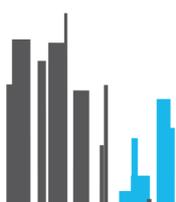
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European Fiscal Compact in Action: Can Independent Fiscal Institutions Deliver Effective Oversight?¹

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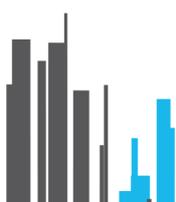
Abstract

The paper explores if EU independent fiscal institutions (IFIs) are in a position to exercise effective scrutiny over national fiscal policies. It identifies substantial heterogeneity across IFIs in resources which is not matched by a similar diversity in mandates, and highlights the role of local ownership as a potentially important factor in explaining this. In addition to financial and human resources, better access to information, effective comply-or-explain mechanisms and closer links with legislatures could enhance fiscal scrutiny and accountability in the EU. The paper provides rankings of individual IFIs constructed based on measures that quantitatively aggregate these pre-conditions for effective fiscal scrutiny.

Keywords: Fiscal Compact, European Union, fiscal councils, fiscal policy, democracy
JEL classification: E62, F45, H61, H77.

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Contents

Introduction.....	5
Data sources.....	7
Independent fiscal institutions and their environment.....	8
Local ownership.....	8
Tasks	8
Resources	9
Access to information	11
Functional independence.....	12
Institutional follow-up and relations with stakeholders	12
Measuring the capacity for effective scrutiny.....	14
Implications	18
Concluding remarks	18
References	19
Appendix.....	21



Introduction

The Treaty on Stability, Coordination and Governance (TSCG, Fiscal Compact) was signed by 25 EU member countries (at that time, all member states except from the Czech Republic and the UK) on 2 March 2012 and it came into force on 1 January 2013. For euro area members, the full text of the treaty is binding, whilst non-euro area members could choose which part of the treaty they would be bound by. The main motivation behind the TSCG was to increase the local ownership and enforcement of the principles and process that underlie the Stability and Growth Pact (SGP) by embedding them into legislation at the national level.³

To our knowledge, there have not yet been systematic and quantitative evaluations of the practical application of the specific provisions of the treaty in the literature. This paper aims to assess the degree to which independent monitoring bodies established and/or given new tasks in the wake of the treaty are in the position to exercise effective scrutiny of budgetary policies in signatory states.⁴

All signatories of the TSCG except for Poland and Slovenia now have an independent body established or appointed to monitor fiscal developments that is fully operational and with adequately defined mandates.⁵

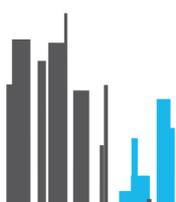
In order to provide a formal evaluation of the potential of IFIs to exercise effective scrutiny in the budget process, we use different types of measures of the different dimensions of the functioning of an IFI relevant for the exercise of surveillance. They are motivated by principles set out by international bodies or by theoretical work. Following Beetsma and Debrun (2016a), we aggregate them up into indices measuring the potential for effective scrutiny and compare rankings of IFIs on these measures. Our analysis differs from theirs both in the IFI sample (includes new institutions) and the fact that our analysis concentrates on the more operational aspects of the functioning of IFIs.⁶

³ Many of its provisions mirror the requirements set out in EU Regulation No. 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area and the Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States. There are, however, important differences between the TSCG and the SGP.

⁴ Calmfors and Wren-Lewis (2011), IMF(2013) and Beetsma and Debrun (2016a) provide a thorough overview of the rationale for and the potential channels of positive influence of independent fiscal institutions (IFIs) on the budget process. In the context of Chang (2012), they could also be seen as a part of a 'fire alarm' mechanism alerting the principal (the European Commission) of agency (member state) slack in delivering on commitments.

⁵ In what follows, a Slovenian institution based in the country's central bank is going to be referred to as Slovenia's IFI, as it has fulfilled many of the tasks of such an institution in the absence of a dedicated IFI. In the latest round of country-specific recommendations by the European Commission, Romania and Slovenia were recommended to improve the functioning of their fiscal framework with the document explicitly referring to the position of their IFI (or, in the case of Slovenia, a lack thereof).

⁶ Output-indicator-based analyses have been attempted by IMF (2013) and Nerlich and Reuter (2013) on a different sample of countries with tentative yet promising results. It would be, however, premature to conduct similar analyses on the sample we are dealing with.



Our findings suggest that – in no particular order - the Dutch CPB, the UK OBR (not a TSCG signatory state), the Portuguese CFP and the Slovak CBR are best positioned to hold the executive to account in the budget process in the EU. At the other extreme, we find that the position of the Luxembourg, German, Estonian and Cypriot IFIs needs strengthening. The Swedish and the Spanish IFIs also rank very high in at least one of our rankings. We provide some evidence that the potential effectiveness of IFIs to exercise budgetary scrutiny is linked to the degree to which the institutions arose from a local initiative.

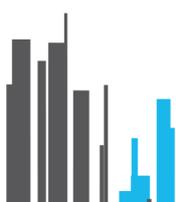
The weakest IFIs need an urgent reinforcement of their resource base, and we argue for supra- or international action in this area. Promoting local ownership of good governance through international commitments is proving difficult, and given the initial conditions, more action from the international level seems warranted until the IFIs establish firm roots in the national institutional architecture. The possibility of enforcing minimum standards and the role of the newly created European Fiscal Board in this should be explored (Mijs, 2016). There is also room for improvement in the area of access to information for many IFIs, including at the EU level. To our surprise, the follow-up from the government to IFI reports is often inadequate, and many IFIs have very weak links with the legislature as well. Such a link would be a desirable feature in a representative democracy.

The paper is unique in that it reflects the perspective of EU IFIs as gathered through a series of surveys conducted among EU independent fiscal institutions (IFIs). This has the obvious advantage of the information reflecting the assessment of those conducting surveillance rather than of those being surveyed (as is common with surveys conducted by international bodies). On the other hand, the information obtained is sometimes inherently subjective, and a diverse set of IFIs may well use different benchmarks when self-evaluating their position.⁷ Nevertheless, the results tend to survive a closer scrutiny at the level of individual cases in most instances. In-depth case studies could address the evaluation of the qualitative aspect of an IFI's functioning not captured in this analysis.

The paper complements a wider body of literature that arose in the wake of the adoption of the TSCG. Burret and Schnellenbach (2013) reviewed the speed and mode of implementation of the provisions of the Compact in euro area member states in the early days following the adoption. Several papers have dealt with the political and institutional implications of the intergovernmental nature of the treaty. Chang (2012), for example, studies the implications for the balance between intergovernmentalism and the communitarian method, and warns of inefficiencies arising from delegation. Laffan (2014) assesses the consequences for the balance between responsiveness towards the domestic electorate versus commitments towards partners that are external to member state politics. Radice (2014) sees the TSCG as yet another step towards depoliticization of economic policy and is concerned about an underlying ideological bias.⁸ The question of the TSCG's adequacy in dealing with the challenges faced by the euro area has also been considered (Bird and Mandilaras, 2013, Aldasoro and Faia, 2014, Kukk and Staehr, 2015). This paper is empirical and focuses on the question of whether the

⁷ This is an issue particularly in the case of the Hungarian IFI in our sample which is a new institution created following the dismantling of a different IFI following its criticism of government policies.

⁸ An exhaustive review of such contributions is beyond the scope of this paper but see also Baratta (2012), Fabbri (2013), Beach (2013) and Mortensen (2013), for early work on the TSCG.



practical implementation of independent monitoring bodies at member state level carries the potential to enhance the efficiency of the functioning of the EU fiscal framework.

The rest of the paper is organized as follows. Section 2 discusses the design of the surveys that are our main data source. Section 3 provides a summary of the responses across institutions with the aim to capture the overall picture in different aspects of the functioning of IFIs. In section 4, we then concentrate on the potential of individual IFIs which we evaluate with the help of aggregate indices. Section 5 summarizes the implications of our analysis and, finally, section 6 concludes.

Data sources

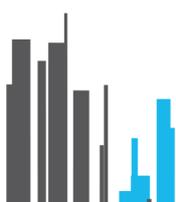
We compile data and information from three different surveys conducted between May and November 2015. Two of them were conducted by the author, and one was conducted by the European Commission but the answers were made available to the author by the EU IFIs.

The first questionnaire on the state of the implementation of the TSCG followed closely a similar questionnaire distributed by the European Commission among government officials. The questionnaire was distributed among all EU independent fiscal institutions existing at the time in countries that were signatories of the Fiscal Compact and received 18 responses. The questionnaire included 16 questions closely following the legal text of the TSCG and one open-ended question aimed gathering information about challenges and problems the IFIs might face. Participants in the survey were expected to supply detailed answers to the questions. In this paper, we shall evaluate the answers to questions on the existence of independent monitoring bodies.

Second, we conducted a survey in which IFIs were asked to provide a quantitative assessment of important elements of the OECD (2014) principles for independent fiscal institutions. A Likert scale of 1 to 5 was used to quantify the EU IFIs' perceptions.

Finally, we also rely on data from a survey by the European Commission conducted during autumn 2015 among members of its EUNIFI network. We evaluate questionnaires sent to us by those institutions that were at that time a member of the Network of EU IFIs which is a bottom-up initiative of IFIs. The sample size is 20 institutions.⁹ This was a more structured survey collecting data on IFIs but also information about their relationship with key stakeholders in a way which permits a quantitative analysis of the results.

⁹ The sample in all three cases involves IFIs from countries that are either not signatories of the TSCG or for whom the TSCG is not binding. Nevertheless, they present a relevant comparison group for IFIs operating under the TSCG, as the mandates are similar and at least two of them have also served (the UK OBR and the Swedish IFI) as a relevant benchmark for many newly created IFIs. Also, in several member states, multiple institutions perform the functions of a potentially single IFIs. Hence, the analysis in the paper is an assessment of institutions, not of the national framework as a whole.



Independent fiscal institutions and their environment

This section provides an overview about the basic characteristics of the IFIs and the environment in which they operate.

Local ownership

Given that the origin of many IFIs lies in the need to implement provisions mandated by supranational or international legislation, whilst other IFIs represent an established tradition, it is not surprising that there is a large variation in the responses on our measure of local ownership.

The OECD (2014) principles state that

„To be effective and enduring, an IFI requires broad national ownership, commitment, and consensus across the political spectrum. While a country seeking to establish an IFI will benefit from the study of existing models and experiences in other countries, models from abroad should not be artificially copied or imposed“,

emphasizing the importance of IFIs being ‘home-grown’. The reality in the EU is that of a large gap between desirable standard and reality, in spite of the fact that the EU legislation allows for national specificities to be taken into account in the design of the institutions.

Whilst there are a few institutions strongly rooted in the national consensus (in the Netherlands, Sweden, the UK or Slovakia), there are many whose existence is not underpinned by widespread political support or a natural position within the national institutional hierarchy (Luxembourg, Germany, Greece, Lithuania, Estonia, Malta, Cyprus or Ireland). This is reflected in the IFIs’ self-assessment in our second survey. Table 1 summarizes the average responses across EU IFIs from our second survey along the different dimensions of the OECD principles. The lowest mean response and the highest variation is recorded for the question on being a home-grown institution.

Tasks

The independent fiscal institutions are mandated to perform a range of tasks in different areas (see Table 2). All EU IFIs assess draft budgets, and the vast majority of them have a role in endorsing forecasts, and evaluating the fulfilment of numerical fiscal rules against plans. A large majority of institutions also produce assessments of long-term sustainability of public finances. Somewhat surprisingly, only a small number of IFIs produce forecasts.

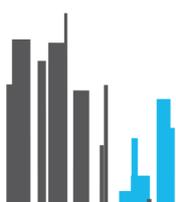


Table 1: IFIs in the light of the OECD principles for IFIs

Question	Mean response	Standard deviation
To what extent do local institutional conditions determine the role and the structure of your IFI? Answer 1 if IFI role and structure is/was imposed from outside; Answer 5 if the IFI emerged from a local initiative.	3.10	1.52
To what extent is the leadership of your IFI chosen on the basis of merit and technical competence?	4.65	0.75
To what extent does your IFI have the autonomy to determine its work programme within the bounds of its mandate?	4.65	0.49
To what extent does your IFI have the resources necessary to fulfill its mandate?	3.55	1.05
To what extent is your IFI engaged with the local legislature?	3.40	1.14
To what extent does your IFI have access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals?	3.50	1.00
To what extent does your IFI make documents, methodologies and data (where applicable) freely available?	4.15	0.81
How would you assess the effectiveness of the communication of your IFI?	3.95	0.83

Resources

Data from the third survey also indicate a significant dispersion in resources available to IFIs. Figure 1 – which gives an indication of this – is constructed based a sample of 19 EU IFIs whose operations concentrate on a set of tasks outlined in EU legislation.¹⁰ Narrowing down the sample further to seven institutions that perform at least 10 of the full set of tasks (see Table 2) does not alter the picture significantly. The average funding across such institutions is around 1,5 million EUR (median 800,000 EUR) with a standard deviation of 1,4 million, whilst the average number of employees in such institutions is 15 (median 6) with a standard deviation of 16.

Interestingly, our data from the second survey provide some very tentative evidence that a positive relationship exists between local ownership and the extent to which an IFI is endowed with sufficient financial, human and data resources. The sample size is, however, small (see Figure 2 below).¹¹

¹⁰ The sample excludes the Dutch CPB, as this institution is a clear outlier in terms of the resources available.

¹¹ The slope coefficient of the fitted line in the right-hand-side figure is nevertheless statistically significant at 95 percent confidence level.

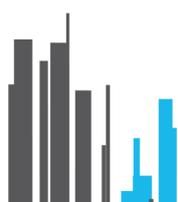
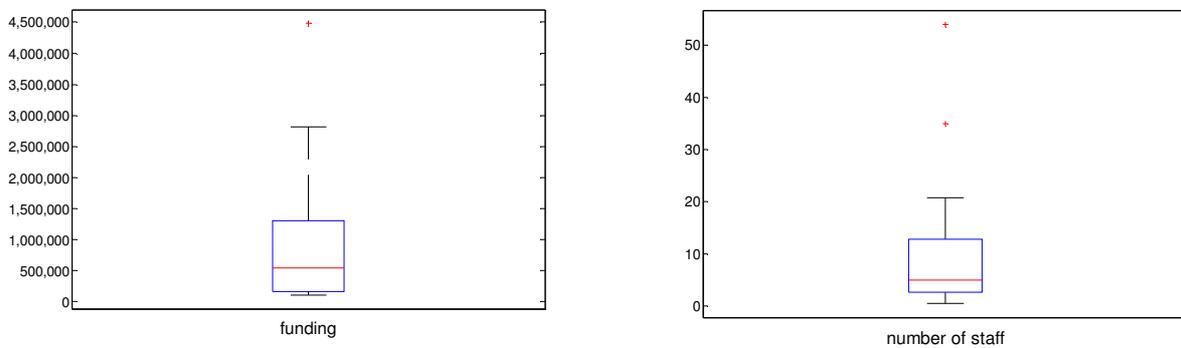


Table 2: Tasks of EU IFIs

Task	Frequency
Assessment of draft annual budgets.	18
Endorsement/assessment of macroeconomic forecasts used for fiscal planning.	17
Endorsement/assessment of budgetary forecasts.	17
Ex ante fiscal rule assessment.	17
Assessment of Stability Programmes (or of national medium-term fiscal plans).	15
Promotion of fiscal transparency.	15
Ex post fiscal rule assessment.	14
Continuous monitoring of fiscal policy/budgetary execution.	14
Long-term sustainability assessments.	14
Involvement in the correction mechanism of the country's main fiscal rule	13
Research in public finance.	11
Monitoring of the budgets of sub-national government (incl. assessment of fiscal rules applicable to them).	9
Quantification of short-term and long-term budgetary effects of envisaged policy measures and reforms.	9
Research in other macroeconomic issues.	9
Normative statements/recommendations regarding fiscal policy.	7
Production of macro-economic forecasts used for fiscal planning.	4
Production of budgetary forecasts.	4

Figure 1: Similar tasks, different resources (EUR, number of staff)



Note: On each box, the central mark is the median, the edges of the box are the 25th and 75th percentiles, the whiskers extend to the most extreme datapoints the algorithm considers to be not outliers, and the outliers are plotted individually. Note that these are outliers in a statistical sense only. Being an outlier here should not be interpreted as an IFI has an excessively generous allocation of resources.

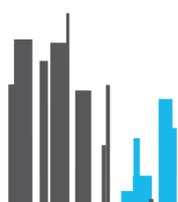
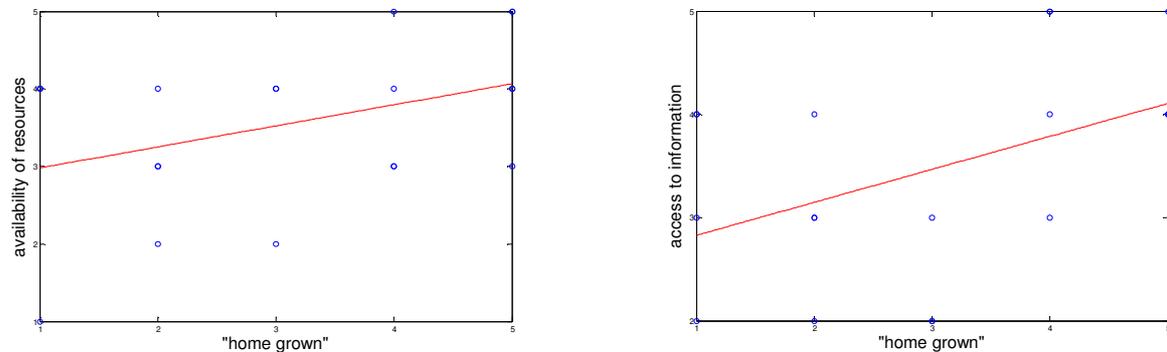


Figure 2: Local ownership, adequacy of resources and access to information



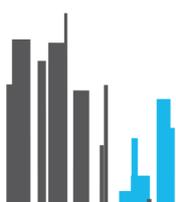
Access to information

Whilst IFIs generally report adequate access to statistical information at the central government level, including forecasts, there are several areas where improvement could facilitate more effective oversight. This is particularly true for data and information on units that are non-central government but a part of the general government sector. There is also often little information about the governments' approach to costing of individual policy measures.

In several cases (Estonia, Finland, Italy, Latvia, Lithuania, Portugal, Romania, Slovakia), all public institutions are required to provide all information to the fiscal councils necessary for fulfilling their duties. In case of non-compliance with this obligation, some fiscal council might take own actions, e.g. in Finland, the IFI has sanctions at its disposal and in Spain, in case of repeated breach of this obligation, corrective measures may be foreseen. Several fiscal councils have reinforced the cooperation with other public institutions by signing memoranda of understanding (e.g. Ireland, Slovakia) or have been trying to improve the access to information on the basis of goodwill (Ireland, Luxembourg). In some cases, there is very weak legal background for access to information (Luxembourg) or the access needs to be improved (Austria). In general, it seems desirable to have specific mechanisms in place to guarantee access to information, as general legal provisions may not guarantee adequate access.

EU IFIs are in the specific position in that they are a part of the EU fiscal framework within which there is also a central level of oversight exercised by the European Commission. Moreover, many IFIs are tasked by legislation to replicate the analysis carried out by the European Commission. Information flows at this level appear to be far from perfect, as many IFIs identified lack of information about EU surveillance rules, procedures and methodologies as a key information gap.

The survey that evaluates the situation of IFIs in the light of the OECD principles for IFIs on aggregate also reveals that access to information is one of the areas where the position of IFIs could be improved to get closer to what is considered good practice (see Table 1 above).



Functional independence

Information from the first survey indicates that the independence of IFIs is explicitly expressed in the legislation in all cases. Most of the institutions are stand-alone, functionally autonomous and fully independent from the budgetary authorities and the staff cannot seek or accept any instructions and interventions from any other entities. Also the nominations have to fulfill criteria of expertise and experience in the field of public finance, the nominees cannot take part in activities that could affect the independence of the fiscal council. In some countries, the nominations are limited only to the country nationals or civil-servants, which several councils perceive as current or possible future obstacles for appointments and hiring of staff, especially in smaller countries.

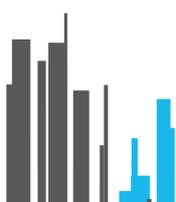
These observations are consistent with the data reported in Table 1. The average scores across EU IFIs are highest and the variation is smallest exactly in the dimensions measuring functional independence and the choice of leadership.

Table 3: Access to information

Information type	Number of complaints
Information on budgetary procedures at the non-central government level (Social Security, Sub-Nationals, State-Owned Enterprises, etc.).	8
Methodological information about how the government costs its measures.	8
Information about EU fiscal surveillance rules and procedures (please specify, i.e calculation of output gap, calculation of the expenditure benchmark, other indicator, etc.).	8
Information on fiscal surveillance techniques by the EU or national institutions.	8
Detailed statistical information on other General Government sub-sectors (please specify which sub-sector(s) are concerned).	6
Information about national budgetary procedures/classifications (in particular of large transactions).	6
Information about the government concrete policy measures.	6
Information about the costing of government policy measures.	6
Information about the government general orientations and intentions.	4
Statistical information on State-owned Enterprises or contingent liabilities.	3
Government budgetary forecasts.	3
Information about the internal (i.e. within the State) arrangements surrounding the preparation of budgets.	3

Institutional follow-up and relations with stakeholders

It is very important for the effectiveness of an IFI's scrutiny of budgetary policies to have established follow-up mechanisms with decision makers and an outreach to the broader public. In this section, we examine relationships with three key stakeholders: the legislature, the government and the media (public).



Relationship with the legislature

Relationship with the legislature is one of the most problematic areas in the functioning of EU IFIs. Unlike the IFIs in the US, Canada or Australia, all but two of the EU IFIs in the sample are based outside parliaments – either as standalone institutions or units of institutions such as audit offices or central banks.

Nevertheless, in a representative democracy, equipping parliamentarians with sufficient information to scrutinize government policies from a fiscal perspective is vital for an effective exercise of the legislature’s accountability role in the budget process. This is indeed recognized in the OECD recommendations for IFIs encouraging them to establish more or less formal relationships with parliaments regardless of their position in the country’s institutional framework.

In practice, as our Table 1 shows, relationship with the legislature is one of the problematic areas of the functioning of EU IFIs. This echoes the findings from the third survey which asked about the frequency of contacts with the legislature where the average score in the range between “frequent” (score 5) and “too few to assess” (score 1) is 3.2 (with a standard deviation of 1.4).¹²

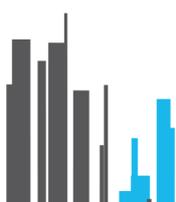
Follow-up from the government

It is crucial from the perspective of the effectiveness of the fiscal council that the government takes notice of its pronouncements. The practice, again, is rather uneven across EU countries, and often different from the intent of the legislation.

Legally, while the fiscal councils are requested to publish opinions and recommendations, only in exceptional cases do they have the mandate to trigger policy action. In the majority of cases (Cyprus, Germany, Estonia, Ireland, Italy, Latvia, Malta, Portugal, Romania, Spain, Slovakia), following the publication of the opinions, the government shall follow the comply-or-explain principle and in case there are significant differences in the viewpoints, it shall publicly justify the reasons. In some countries, the legislation sets a timeframe within which the explanation shall be made, in Ireland and Malta it should be made within two months, in Spain the fiscal council has issued a regulation clarifying the nature of recommendations as well as specific deadlines to react. On the other hand, in some other countries, e.g. Lithuania, Luxembourg, there is no explicit legal basis for the comply-or-explain principle.

The above description mainly holds for the task of evaluating compliance with numerical fiscal rules in relation with the TSCG. In other areas, there are mostly no formal, predetermined rules or procedures that would follow the publication of opinions and assessments. Hence, it is important to look at practice.

¹² One could argue that the strength of the relationship with parliamentarians may reflect a strategic choice in early stages of the life-cycle of an IFI with a view to build a track record of non-partisanship and independence from politics. It will be thus important to monitor this indicator of potential effectiveness over time.



In practice, the situation seems less than ideal and often in fact perhaps worse than in the case of the relationship with the legislature. When asked about the frequency of responses by governments to their reports, IFIs an average score of just 3.1 with a standard deviation of 1.5 on a 1 to 5 scale where 1 denotes “rarely” and 5 stands for “always”.

Media and the public

The fiscal councils generally enjoy the freedom to communicate freely with the media and do not experience any issues in this field. For this purpose most of the fiscal councils have their own websites at which the reports and opinions are published, they organize press conferences and communicate with the media.

In our second survey, the IFIs rated the effectiveness of their communication fairly highly (see Table 1) but when asked about the awareness of the public at large about their existence, tasks and views of the major fiscal issues of the day, the average score across institutions was only at 2.55 if we rate the answer “few know about our existence” as 1 and “most know about our existence, tasks (broadly speaking), and have an idea on our broad stance on the most important current budgetary issues of the day” as a 5. It might be the case that IFIs overestimate the effectiveness of their communication.

Measuring the capacity for effective scrutiny

The previous section looked at different parameters determining the potential for effective scrutiny of IFIs, and evaluated the situation on each factor across institutions. In this section, we look at individual institutions and attempt to aggregate information on each of the parameters into aggregate indicators with a view to measure the potential IFIs have to exercise effective fiscal scrutiny in their respective countries. In the context of Beetsma et al. (2016c), our measures could be interpreted as a measure of an IFI’s potential to exert influence on the political process to keep public debt close to its efficient level.

To this end, we use data from the second and the third survey to construct indices that will allow us to rank individual IFIs.

The first measure we construct is based on the second survey examining the different dimensions of the OECD principles. Our index is an absolute measure: a simple average of reported scores across the different questions. The results of this exercise are reported in Table 4.

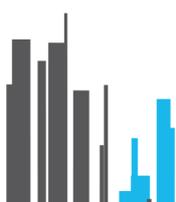


Table 4: Rankings according to OECD principles

IFI	Rank
SE, UK*	=1
NL (CPB), SI (IMAD)**, HU	=3
SK, PT	=6
FI**, EL (PBO)	=8
IT, LI, IE	=10
DK	13
LT	14
ES	15
EE, MT, CY, DE (Advisory Board to German Stability Council)	=16
LU	20

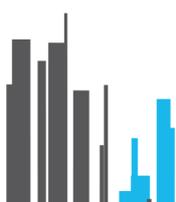
*not a TSCG signatory state, **see footnote 18

Next, we use data from our third survey to produce a similar index. We assess IFIs along the following seven dimensions:

1. *Breadth of mandate*: measured by the number of tasks the IFIs perform. The rationale behind this measure is that institutions with broader mandates are more likely to possess the expertise and clout to influence the budget process.¹³
2. *Financial resources*: measured by the budget divided by the number of (adjusted) tasks.¹⁴
3. *Human resources*: measured by the number of staff divided by the number of (adjusted) tasks.
4. *Access to information*: measured by the (inverse of the) number of different areas in which an IFI feels information is inadequate – either withheld or available with undue delay.
5. *Public awareness*: measured on a 1 to 5 scale with the response “few know about our existence” counting as 1 and “most know about our existence, tasks (broadly speaking), and have an idea on our broad stance on the most important current budgetary issues of the day” as a 5.

¹³ The number of tasks has been adjusted for their work intensity as follows: a weight of 1 is given to production of forecasts, monitoring of sub-national budgets and costing of policies, a weight of 0.8 is assigned to ex ante and ex post assessment of budgets and research, a weight of 0.6 is given to assessment of fiscal rules (ex ante and ex post), assessment of monitoring of Stability Programme Updates and long-term sustainability analyses, endorsement activities and involvement in the correction mechanism under the TSCG carries a weight of 0.4 and, finally, a weight of 0.2 is assigned to normative recommendations and promotion of fiscal transparency.

¹⁴ The absolute budget sums have been adjusted using 2015 GDP price level indices for each country.



6. *Reaction from government*: measured on a 1 to 5 scale with 1 capturing a situation when government responds to an IFI only rarely and 5 corresponding to the answer “always”.
7. *Relationship with Parliament*: measured on a 1 to 5 scale and capturing the frequency of contacts with the legislature where 1 stands for “too few to assess” and 5 signals “frequent” exchanges.

There are obviously several caveats here concerning all the measures we use. Our adjustment for the human-resource- and finance-intensity of tasks may well be rather imperfect and we implicitly equate resource-intensity with influence in the budgeting process. The number of complaints need not capture the severity of the situation fully, as it blurs the importance of individual cases. Neither of our measures captures the unobservable qualitative component of the work of an IFI. Yet, we trust the imperfect measures will be able to tell us something useful about the big picture.

Given that our indicators are measured on different scales, we standardize them so that they all measure the relative position of an institution on the [0,1] interval with respect to a given indicator.¹⁵ Then, we take a weighted average across the scores. The average score on the first four indicators above receives a weight of 0.75, whilst the average score on the last three indicators carries the weight of 0.25.¹⁶

The results from this exercise are reported in Figure 3 below.¹⁷ Comparing the results with Table 4, we see that there are significant overlaps despite the measures being based on different types of data. The top third of the ranking consistently involves the Dutch CPB, the UK OBR, the Portuguese CFP, the Slovak CBR and the Slovenian IMAD.¹⁸ At the other end of the spectrum, we see the Luxembourg, the German, the Cypriot and the Estonian fiscal council appearing in both rankings. The results are broadly consistent with Beetsma and Debrun (2016b).

Interestingly, the average score from this exercise correlates nicely with the degree of local ownership as reported in the second survey. This is shown in Figure 4. This result provides further support for the conjecture about the importance of local ownership of institutions for their design and potential effectiveness.

¹⁵ The Dutch CPB represents a clear outlier in terms of funding and human resources. The Slovenian IMAD is also an outlier in terms of number of staff. We carry out the standardization excluding these two institutions, and assign the maximum value of 1 to them subsequently. Note that the results are similar if we use normalization by subtracting the mean and dividing the value by the standard deviation. It is, however, difficult to argue that the distribution of the variables is normal, and hence we prefer the standardization to the 0-1 scale.

¹⁶ Different weightings might lead to slightly different rankings, although the differences are not large. We consider this weighting reasonable, as the first four indicators are more objective, whilst the latter three are subjective (IFIs may have different reference values in mind when filling in the questionnaire).

¹⁷ Scores on individual measures are reported in the appendix.

¹⁸ In the meantime, Slovenia has embarked on establishing a new IFI instead of referring to the central-bank-based institute as the institution that fulfils the role of the fiscal council. It must also be said that some institutions have experienced a significant adverse change in their parameters, most notably Finland, where staffing levels have dropped to a minimum.

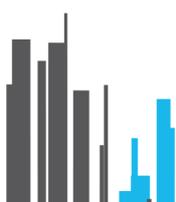
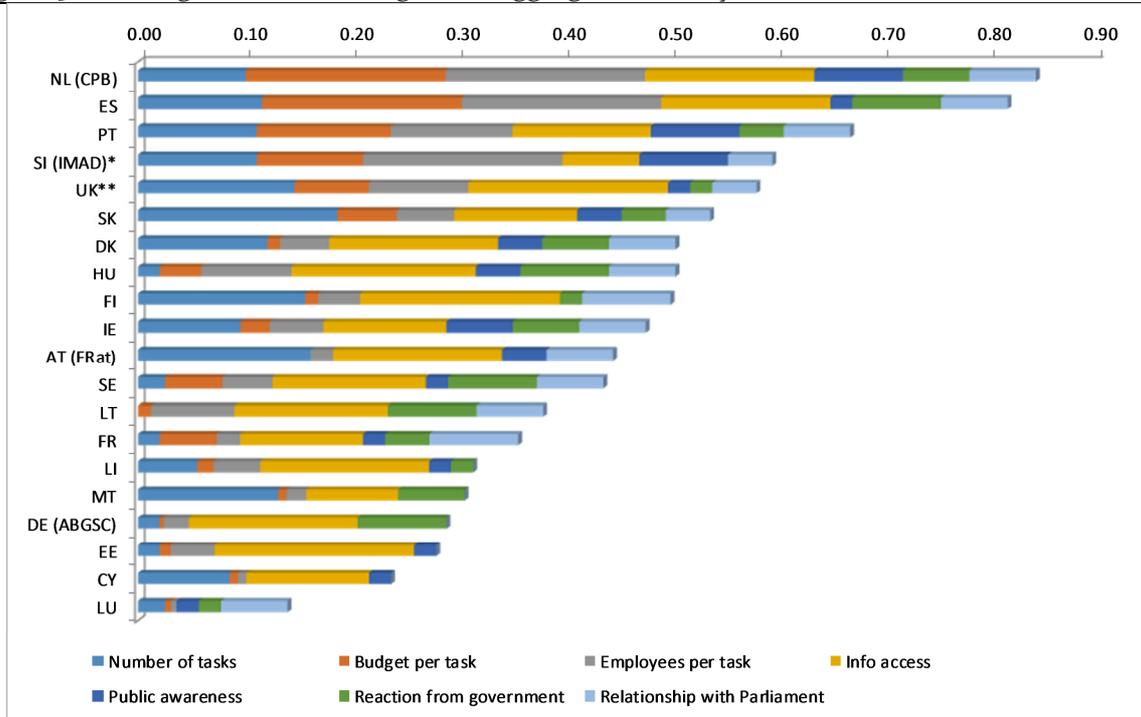
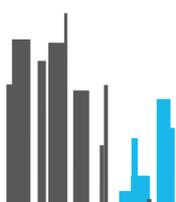
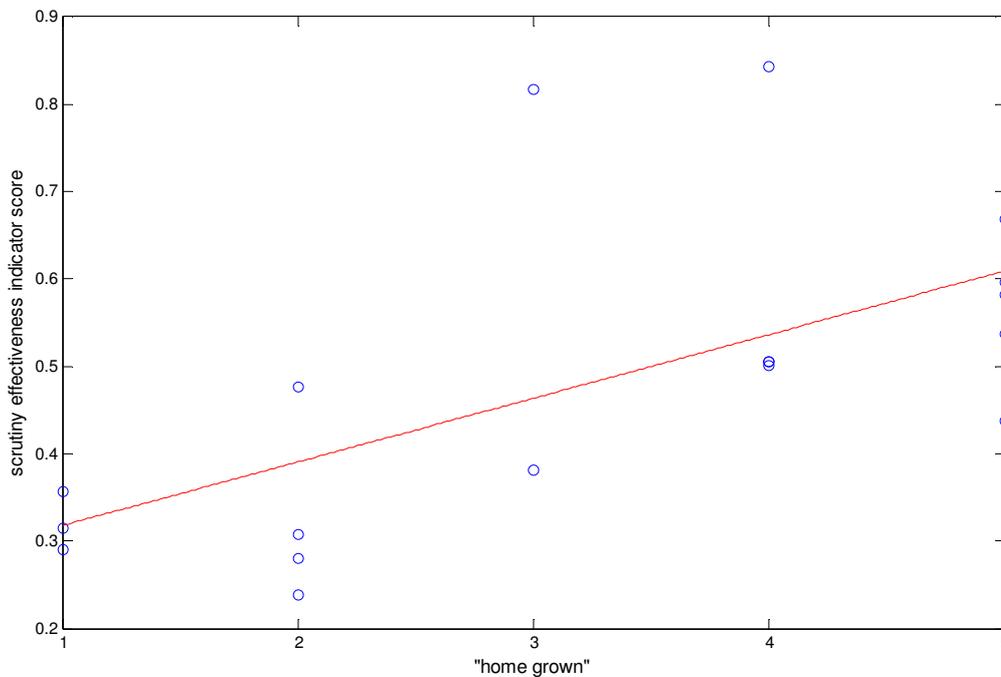


Figure 3: Ranking of IFIs according to the aggregate scrutiny effectiveness indicator score



*see footnote 18, ** UK not a TSCG signatory state.

Figure 4: Local ownership vs scrutiny effectiveness indicator score



Implications

The lack of resources which is usually what underlies the low ranking of the worst-ranked IFIs needs to be addressed with urgency. Given the tentative evidence suggesting that the issue of resources might be linked to the fact that many of the IFIs do not enjoy broad-based political support at the national level, pressure from supra- or international bodies might be needed to support these institutions until they become more widely acknowledged locally.

Our analysis indicates that there are also significant problems with access to information in the case of some IFIs. In terms of areas where gaps in information persist, we should highlight data on sub-national and general government entities but also information concerning individual government measures underpinning consolidation strategies. More work also needs to be done in the area of making the functioning of the EU fiscal framework more transparent, including matters of methodology.

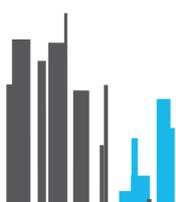
Lack of response from governments to IFI analysis and weak relationships with legislatures are a cause for concern.

To address these issues, a stronger enforcement of relevant law ensuring even compliance across member states seems warranted. The possibility of enforcing minimum standards and the role of the newly established European Fiscal Board in this should be explored. At the same time, cooperation among IFIs and peer pressure (in the form of peer reviews) could promote a more even application of the TSCG on the one hand, but also address an important qualitative component of the work of an IFI not captured by this analysis.

Concluding remarks

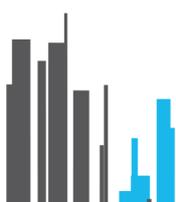
We have reviewed the implementation of the Fiscal Compact in EU member states with a special focus on the establishment and the functioning of independent monitoring bodies. We have found that whilst many EU IFIs have the resources and the right institutional setting to fulfil their mandates effectively, in several cases, there are critical capacity and information constraints to be addressed to foster a better functioning of the national fiscal framework. Our analysis allows identifying the most acute among such cases.

Whilst work based on aggregation of simple and often subjective information may yield useful insights, it is important to follow-up studies of this kind with detailed case studies to identify the deeper and more qualitative critical factors that facilitate effective fiscal surveillance.



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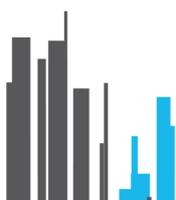
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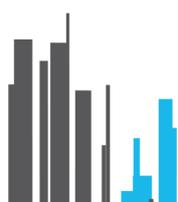
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Appendix

Table A1: IFI individual scrutiny effectiveness indicator scores

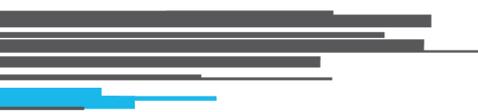
IFI	Tasks	Finance	HR	Info	Pub. Aw.	Gov resp	Rel w/ P
AT	0.86	0.00	0.11	0.85	0.50	0.00	0.75
CY	0.46	0.04	0.04	0.62	0.25	0.00	0.00
DE	0.11	0.02	0.12	0.85	0.00	1.00	0.00
DK	0.65	0.06	0.25	0.85	0.50	0.75	0.75
EE	0.11	0.06	0.22	1.00	0.25	0.00	0.00
ES	0.62	1.00	1.00	0.85	0.25	1.00	0.75
FI	0.84	0.06	0.21	1.00	0.00	0.25	1.00
FR	0.11	0.29	0.12	0.62	0.25	0.50	1.00
HU	0.11	0.21	0.45	0.92	0.50	1.00	0.75
IE	0.51	0.14	0.27	0.62	0.75	0.75	0.75
LT	0.00	0.07	0.42	0.77	0.00	1.00	0.75
LI	0.30	0.08	0.23	0.85	0.25	0.25	0.00
LU	0.14	0.03	0.03	0.00	0.25	0.25	0.75
MT	0.70	0.04	0.10	0.46	0.00	0.75	0.00
NL	0.54	1.00	1.00	0.85	1.00	0.75	0.75
PT	0.59	0.67	0.61	0.69	1.00	0.50	0.75
SE	0.14	0.29	0.25	0.77	0.25	1.00	0.75
SK	1.00	0.30	0.29	0.62	0.50	0.50	0.50
SI	0.59	0.53	1.00	0.38	1.00	0.00	0.50
UK	0.78	0.37	0.50	1.00	0.25	0.25	0.50



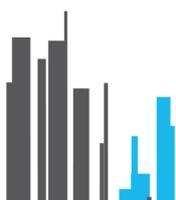


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